

# **State of Alaska FY2008 Governor's Operating Budget**

## **Department of Transportation/Public Facilities Marine Highway System Results Delivery Unit Budget Summary**

## Marine Highway System Results Delivery Unit

### Contribution to Department's Mission

Provide safe, secure, reliable and efficient transportation of people, goods and vehicles through the Alaska Marine Highway System by developing and implementing sound policy and procedures for operations, and staffing with well trained professionals who are sensitive to the needs of our customers.

### Core Services

The Alaska Marine Highway System (AMHS) operates 11 roll-on/roll-off passenger ships during the summer season and as few as 4 ships during the fall, winter and spring season. Weeks of operation are tailored to meet the needs of the traveling public and communities while maximizing revenue and minimizing costs.

AMHS constantly maintains, repairs, refurbishes, and upgrades its vessels and terminal facilities. Hard use in a marine environment and the stringent regulations (state, federal, and international) governing passenger-carrying marine vessels determine the need for these activities.

Operations services provided:

- Transport of people, goods and vehicles to and from 32 ports along 3,500 track miles from Bellingham, Washington, through Southeast Alaska, across the Gulf of Alaska to Prince William Sound and South Central Alaska, to Kodiak Island, the Alaskan Peninsula and out the Aleutian Islands to Unalaska.
- 16 state-owned terminals and their staff provide shelter and book passage for an average of over 300,000 passengers and stage over 90,000 vehicles per year aboard AMHS vessels.
- 740 shipboard employees crew AMHS ships based upon U.S. Coast Guard (USCG) requirements and 158 shoreside employees including terminal operators provide support to the vessels and crews.
- Implement a standardized International Safety Management (ISM) certification safety program to maintain proficiency in the AMHS fleet and meet International Maritime Organization (IMO) requirements.
- Provide quality service to every customer.
- Complete required annual overhaul, maintenance and inspection requirements in conjunction with USCG, and classification entities.
- Implement Maritime Transportation Security Act (MTSA) guidelines, this includes staff training and infrastructure changes. MTSA is a federal security agency comparable to Transportation Security Administration (TSA), but for maritime transportation.
- Certify all shipboard employees under the Standards for Training, Certification, and Watch-keeping for Seafarers (STCW) program.
- Certify Fast Vehicle Ferry (FVF) crews under the International High Speed Code requirements

The maintenance, repair, refurbishment, and upgrading services provided are to:

- Conduct the surveys, assessments, detailed preliminary engineering, cost estimating, long-range planning, and design for federally funded vessel modernization projects included in the departments needs list and ultimately the State Transportation Improvement Program.
- Initiate, administer, and provide on-site shipyard oversight of contracts for vessel modernization projects.
- Plan and provide preventive maintenance and repair of 16 terminal facilities.
- Purchase support services and goods for the necessary annual overhaul of each vessel.

End Results	Strategies to Achieve Results
<b>A: Improve mobility of people and goods.</b>  <u>Target #1:</u> Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency. <u>Measure #1:</u> Percent satisfied AMHS customers based upon user surveys.	<b>A1: Provide reliable, convenient and efficient service on the AMHS.</b>  <u>Target #1:</u> Meet or exceed industry standard for on-time departures. <u>Measure #1:</u> Percent of on-time departures compared to

	<p>total departures.</p> <p><u>Target #2:</u> Increase the frequency of port calls by 5% from the prior year.</p> <p><u>Measure #2:</u> Percent change in number of port calls as compared to prior year.</p>
End Results	Strategies to Achieve Results
<p><b>B: Improve AMHS performance.</b></p> <p><u>Target #1:</u> Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.</p> <p><u>Measure #1:</u> Percent change in revenue per rider mile to cost per rider mile.</p>	<p><b>B1: Increase AMHS revenues.</b></p> <p><u>Target #1:</u> Increase onboard sales per passenger by 5% over the previous 3-year average.</p> <p><u>Measure #1:</u> Onboard sales per passenger compared to average of previous 3 years.</p> <p><u>Target #2:</u> Increase passenger capacity utilization by 3%.</p> <p><u>Measure #2:</u> Percent change in passenger capacity utilization compared to a 3-year average.</p>

### Major Activities to Advance Strategies

<ul style="list-style-type: none"> <li>Design, procure and employ lighter, faster vessels</li> <li>Implement a ticket scanning system</li> <li>Develop separate and secure staging areas of passenger loading</li> <li>Optimize schedules</li> <li>Lease space to private providers</li> <li>Utilize lease vessels when doing so reduces costs</li> <li>Provide end-of-road terminal and shuttle service</li> <li>Develop alternative vessels</li> </ul>	<ul style="list-style-type: none"> <li>Develop terminal prototypes for construction</li> <li>Ensure compliance with Shephard Act</li> <li>Provide access to shore excursion businesses</li> <li>Review organizational structure</li> <li>Improve fuel efficiency through use of new technology</li> <li>Develop vessels that take advantage of state-of-the-art technology</li> <li>Develop layup berths and facilities</li> <li>Analyze AMHS activities to identify cost savings</li> </ul>
--	--

### FY2008 Resources Allocated to Achieve Results

FY2008 Results Delivery Unit Budget: \$152,316,300	<b>Personnel:</b>	
	Full time	704
	Part time	194
	<b>Total</b>	<b>898</b>

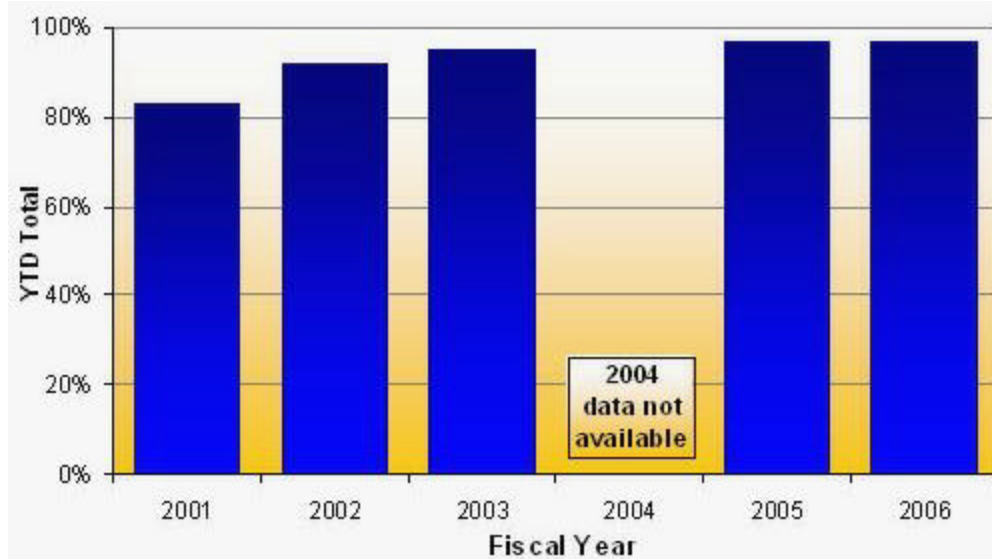
## Performance Measure Detail

### A: Result - Improve mobility of people and goods.

**Target #1:** Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency.

**Measure #1:** Percent satisfied AMHS customers based upon user surveys.

Percent of satisfied customers



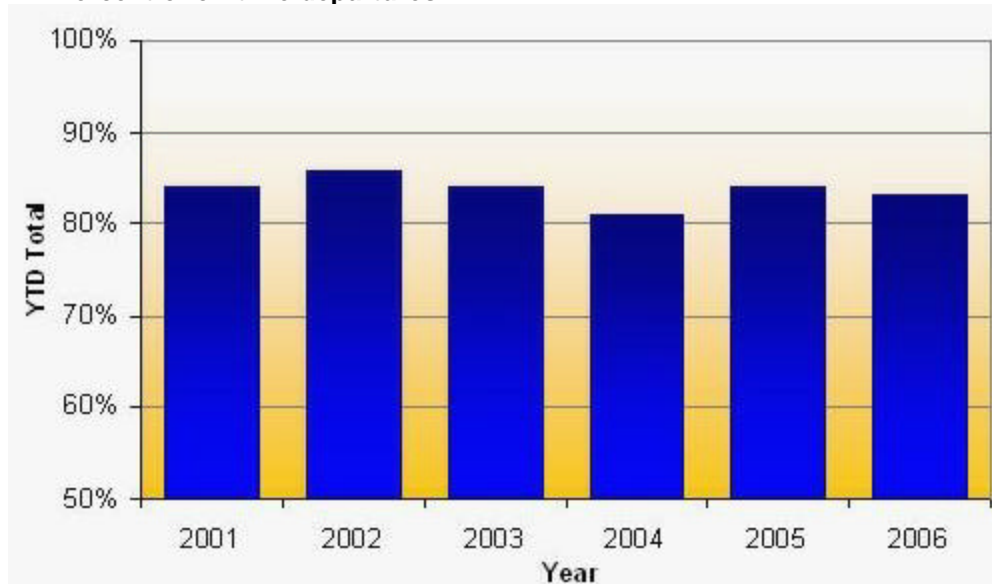
**Analysis of results and challenges:** Independent surveys are conducted onboard AMHS vessels at various points throughout the summer season. Passengers are asked to rate a variety of aspects relative to their AMHS experience. The survey data is summarized and the results are presented to AMHS management.

### A1: Strategy - Provide reliable, convenient and efficient service on the AMHS.

**Target #1:** Meet or exceed industry standard for on-time departures.

**Measure #1:** Percent of on-time departures compared to total departures.

Percent of on-time departures



**Analysis of results and challenges:** The target is for the Alaska Marine Highway System (AMHS) to

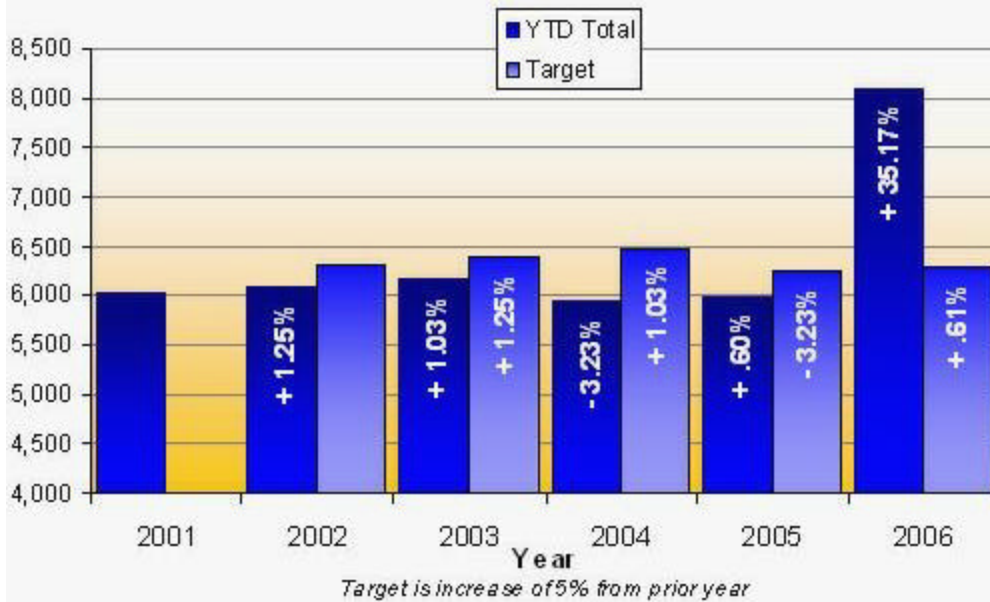
consistently exceed the on-time airline departure benchmark of 75.1%. An on-time ferry departure is within 30 minutes of the scheduled departure time.

Numerous events can cause delays in ferry departure times, especially weather and tides. An additional relevant factor is the time it takes to load/unload large and/or low slung vehicles (RV's, trucks w/trailers, heavy equipment) during busy periods. Most of these factors are out of the control of AMHS. Nevertheless, making schedule modifications in the event of continual and systematic delays are within the Department's control.

**Target #2:** Increase the frequency of port calls by 5% from the prior year.

**Measure #2:** Percent change in number of port calls as compared to prior year.

**Number of port calls to Alaska communities**



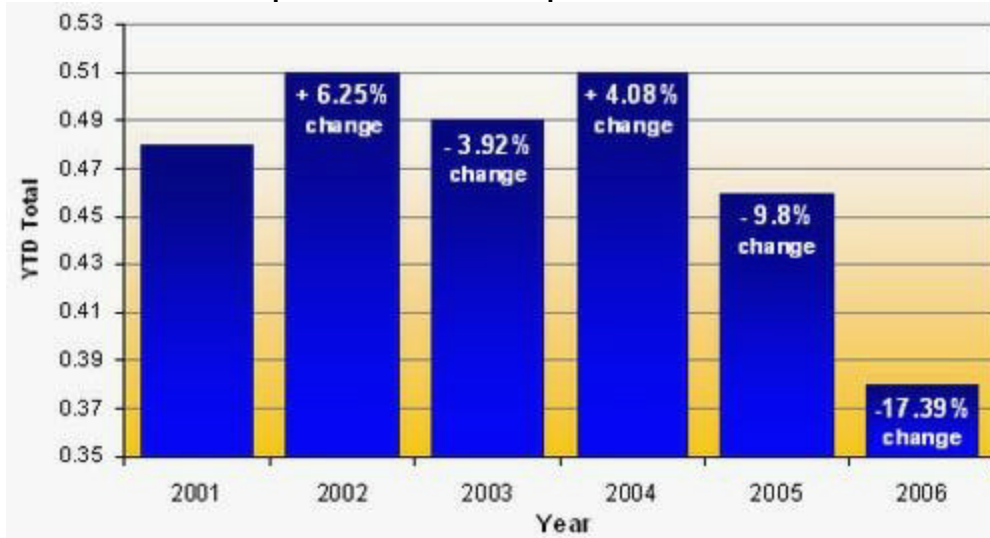
**Analysis of results and challenges:** This measure reflects the service level provided to communities dependent upon the Marine Highway. Fiscal year 2006 showed significant increases primarily from the addition of the FVF Chenega which serviced Prince William Sound in May and June and Ketchikan, Wrangell, and Petersburg during the winter months. Other increases were realized from the shifting of the Metlakatla service with the Lituya to a twice daily five day per week service.

**B: Result - Improve AMHS performance.**

**Target #1:** Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.

**Measure #1:** Percent change in revenue per rider mile to cost per rider mile.

Ratio of revenue per rider mile to cost per rider mile



**Analysis of results and challenges:** With the start of fiscal year 2006 AMHS found itself in the position of escalating service cost and declining rider-ship. On the cost side, collective bargaining agreements, the cost of PERS and soaring fuel prices have drastically increased AMHS service cost. To grow rider-ship and revenues, starting in November of 2005 AMHS instituted targeted pricing discounts. The results of these programs resulted in a 7% increase in collected revenues and traffic increases of 9% as compared to the previous year. It is the belief of management that proper advertising and tariff pricing during the off-season is a critical success factor in addressing revenue shortfalls. In fiscal year 2007 AMHS management is considering targeted price discounts for price sensitive runs and it is the belief of management that tariff pricing is a primary concern of the Alaskan traveler.

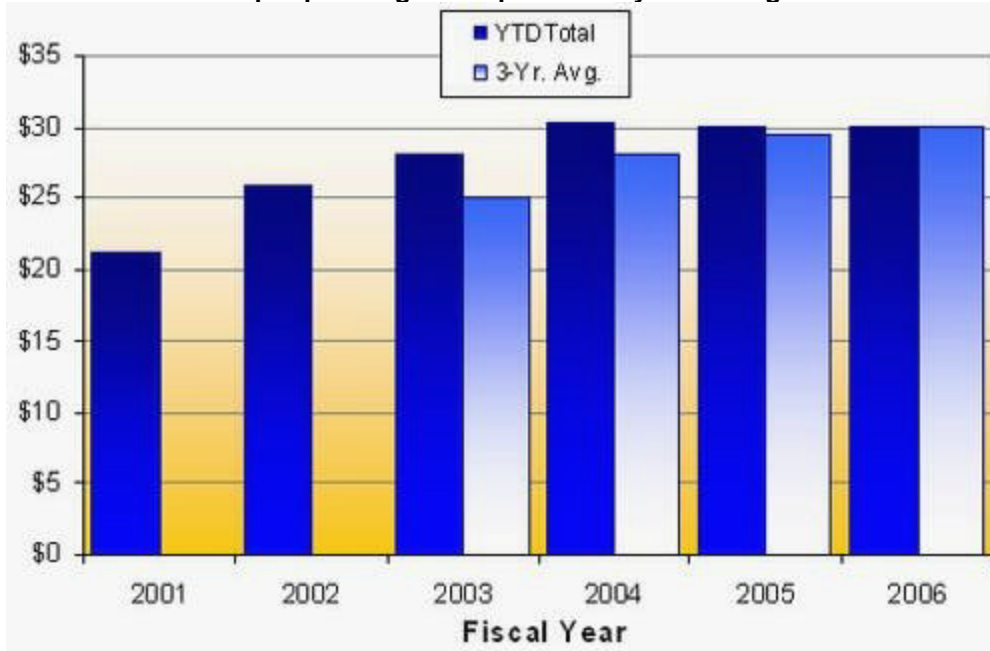
AMHS is in the process of upgrading the fleet with the addition of economical passenger/vehicle ferries. For example, a new Haines Skagway shuttle vessel project has been started. This vessel will be very economical, and should allow a more efficient mainline scheduling in North Lynn Canal to be developed. In turn, this increased efficiency is intended to reduce the cost per mile to operate the AMHS.

**B1: Strategy - Increase AMHS revenues.**

**Target #1:** Increase onboard sales per passenger by 5% over the previous 3-year average.

**Measure #1:** Onboard sales per passenger compared to average of previous 3 years.

**On-board sales per passenger compared to 3 year average**



**Analysis of results and challenges:** Onboard revenue per passenger includes cabin occupancy, food, beverage, and other sources of revenue.

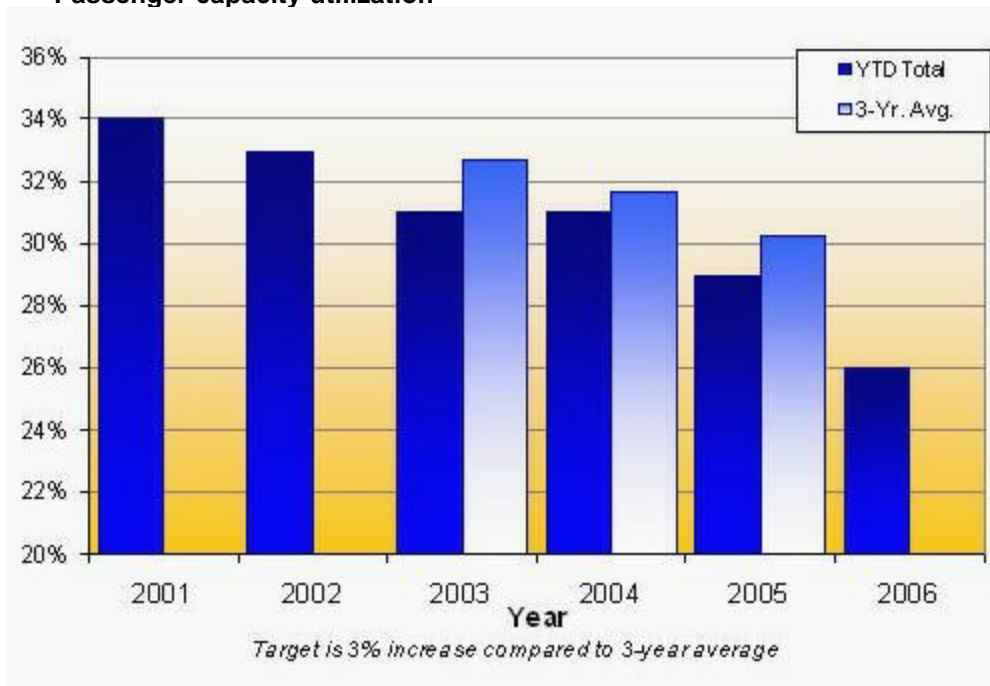
AMHS has made steady progress increasing its onboard sales revenue. The progress can be attributed in part to two areas. First, a marketing and tariff study was conducted by the McDowell Group. The purpose of the study was to find a way to improve the AMHS's revenue earning capability. This study identified the reasons people chose the AMHS to travel to and from Alaska and what they liked and disliked aboard the vessels. Recommendations from this study were followed accordingly.

In 2006 the rollout of on board wireless internet facilities was introduced to the fleet and in 2007 2 additional vessels will be fitted with these capabilities. Management of AMHS expects these investments to produce positive financial results.

**Target #2:** Increase passenger capacity utilization by 3%.

**Measure #2:** Percent change in passenger capacity utilization compared to a 3-year average.

### Passenger capacity utilization



**Analysis of results and challenges:** The analysis converts capacity data into passenger miles by taking the sum of each trip's passenger capacity and multiplying it by the distance the ship travels. This produces the capacity number.

Next, the analysis considers the actual sum of passengers that were on board and multiplies that number by the distance they traveled. This produces the utilized number. Finally, the utilized number is divided by the capacity number to produce the utilization percentage.

With capacity utilization on a down trend the system has reached price resistance. New promotional specials and round trip discounts are being implemented in attempt to gain back rider-ship and reverse the capacity utilization trends.

## Key RDU Challenges

The M/V Fairweather and M/V Chenega are the first high-speed ferries constructed in the U.S. to the International Maritime Organization's High Speed Craft (HSC) Code. The USCG requires all licensed crewmembers to have significant vessel and route knowledge and training. Under the new day boat operational strategy, the crews depart the vessel each evening at which time maintenance and provisioning take place by shore-based staff. Implementation of this commercial airline industry model is a significant management challenge. Union contracts signed for the fast ferry crews have resulted in higher base wages for fast ferry crews than that of the mainline vessels, with a higher than expected operational and night maintenance staffing level, along with the fact that the vessels are weather dependent during winter operations, have created more of a challenging operational situation than was originally expected.

There is the continual need to improve customer service. It is important to maximize constituent input in schedule implementation and still provide maximum transportation support to Alaska communities. The purpose is to enhance the economic and social fabric of the communities AMHS serves. At the same time AMHS is striving to achieve a lower cost per mile of operation by reducing overtime and laying up ships during the off season to save on personnel costs. Matching vessel capacity with customer demand is a constant goal. In addition, alternatives have been analyzed that could increase revenues through marketing, tariff adjustments, extending on board services, increasing promotional discounts, and introducing on-line reservations with the potential for printing tickets on personal computers.



Increased shipboard and shoreside terminal security is critical to maintaining a safe and secure marine transportation system. Recent USCG rules on security procedures for passenger vessels and terminals mandates enhanced security inspections and screening. AMHS vessel and facility security plans have been approved by the USCG. The required security inspections and screening required for MARSEC Levels II & III will present additional challenges to the system. The department was awarded a port security grant for terminal security upgrades from the Department of Homeland Security and continues to upgrade terminals with those funds. Additional grant funding was secured in 2006 for security infrastructure at the AMHS terminal in Valdez.

New OSHA safety and inspection standards also add to our operational challenges.

Recruitment of replacement Vessel Construction Managers, Port Engineers, and Port Captains due to retirement and transfer from state service, continues to be challenging. Hiring qualified candidates that have specialized skills and experience normally requires nationwide recruitment and at least six months lead-time.

## Significant Changes in Results to be Delivered in FY2008

The Alaska Marine Highway System operating plan must be developed based on anticipated system revenues, general fund subsidies, and the AMHS fund balance. Budget requests will allow continued year round safe, reliable and efficient transportation of people, goods and vehicles on Alaska's Marine Highway.

Costs saving measures have been pursued aggressively to decrease the impact of transportation service provided to Alaskans and visitors to the state.

## Major RDU Accomplishments in 2006

- Kept up to eleven AMHS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements.
- Successfully served ports in Southeast Alaska with the M/V Kennicott and maintained the cross-Gulf of Alaska service, which links the Southeast and Southwest systems.
- Maintained the ISM Code program certification required for AMHS vessels to visit Canadian ports. AMHS is the only U.S. flag, vehicle-passenger vessel fleet with overnight accommodations to have earned this certification. This certification has become the safety standard for the entire AMHS fleet.
- Successfully trained all vessel employees to the highest international standards of basic safety training and ship familiarization set by federal STCW requirements.
- Successfully maintained qualified officers to operate the fast ferries under the International High Speed Code, and also in 2006 developed a recertification program under that code.
- Maintained AMHS vessels through a combination of federally funded and state funded overhauls. State overhauls were conducted in both Ketchikan and Seward, Alaska.
- Met the federal and international safety requirements for accountability of passengers with the new reservation management system (RMS3) and improved reservations processing time through reprogramming and agent training.
- Kept the terminal facilities operating safely and reliably.
- Continued a proactive and aggressive marketing effort. For example, round trip discounts were offered during the winter months to stimulate ridership during that historically slow time of the year.
- Increased both passenger and vehicle ridership numbers in 2006, thus reversing a multi-year downturn in those numbers.
- Continued to work with the Marine Transportation Advisory Board, relying on their input regarding AMHS operations and long-range planning of the System.

### Contact Information

**Contact:** Robin Taylor, Director of Marine Operations  
**Phone:** (907) 465-3902  
**Fax:** (907) 586-8365  
**E-mail:** Robin\_Taylor@dot.state.ak.us

**Marine Highway System  
RDU Financial Summary by Component**

*All dollars shown in thousands*

	FY2006 Actuals				FY2007 Management Plan				FY2008 Governor			
	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds
<b>Formula</b>												
<b>Expenditures</b>												
None.												
<b>Non-Formula</b>												
<b>Expenditures</b>												
Marine Vessel Operations	78,788.1	0.0	39,369.4	118,157.5	78,456.3	0.0	37,946.4	116,402.7	96,118.0	0.0	37,946.4	134,064.4
Marine Engineering Overhaul	0.0	0.0	1,878.4	1,878.4	0.0	0.0	2,426.0	2,426.0	95.4	0.0	2,623.2	2,718.6
Reservations and Marketing	0.0	0.0	1,627.3	1,627.3	0.0	0.0	1,698.4	1,698.4	0.0	0.0	1,698.4	1,698.4
Marine Shore Operations	0.0	0.0	2,393.8	2,393.8	700.0	0.0	2,236.9	2,936.9	908.1	0.0	2,236.9	3,145.0
Vessel Operations Management	0.0	0.0	5,154.0	5,154.0	0.0	0.0	6,323.1	6,323.1	583.6	0.0	6,323.1	6,906.7
Totals	78,788.1	0.0	52,410.8	131,198.9	79,156.3	0.0	53,988.4	133,144.7	98,130.1	0.0	54,186.2	152,316.3

**Marine Highway System  
Summary of RDU Budget Changes by Component  
From FY2007 Management Plan to FY2008 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2007 Management Plan</b>	<b>79,156.3</b>	<b>0.0</b>	<b>53,988.4</b>	<b>133,144.7</b>
<b>Adjustments which will continue current level of service:</b>				
-Marine Vessel Operations	-7,800.0	0.0	0.0	-7,800.0
-Marine Engineering	95.4	0.0	-95.2	0.2
-Reservations and Marketing	208.1	0.0	-208.1	0.0
-Marine Shore Operations	575.0	0.0	-575.0	0.0
-Vessel Operations Management	425.0	0.0	-424.4	0.6
<b>Proposed budget increases:</b>				
-Marine Vessel Operations	25,461.7	0.0	0.0	25,461.7
-Marine Engineering	0.0	0.0	292.4	292.4
-Reservations and Marketing	0.0	0.0	208.1	208.1
-Marine Shore Operations	8.6	0.0	575.0	583.6
-Vessel Operations Management	0.0	0.0	425.0	425.0
<b>FY2008 Governor</b>	<b>98,130.1</b>	<b>0.0</b>	<b>54,186.2</b>	<b>152,316.3</b>